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Prepared for Rep. Louise McIntosh Slaughter

The Impact of Increased Gasoline Prices in the Buffalo and Rochester Areas

BACKGROUND

In recent months, gasoline prices have increased dramatically, exceeding $2.00 per gallon and reaching record levels in May 2004.[1] Although recent decisions by OPEC are expected to have some impact on gas prices, the Energy Information Administration has indicated that gasoline "price levels are still expected to remain high by historical standards."[2]

These high gasoline prices have significant impacts on family budgets — and on the economy as a whole. Increased expenditures for gasoline reduce families' discretionary income and can result in inflation in the price of consumer goods. On May 17, 2004, Federal Reserve Chairman Alan Greenspan indicated that the "dramatic" increase in oil and gasoline prices is "an economic event that can significantly affect the long-term path of the US economy."[3]

At the request of Rep. Louise McIntosh Slaughter, this analysis examines the impact of the increase in gasoline prices in the Buffalo and Rochester areas. It finds that the increased costs could force motorists in the Buffalo and Rochester areas to pay almost $90 million more for gasoline in the summer driving season than they did last summer. For the average family in the Rochester area, the increase in gasoline prices could increase fuel costs by approximately $180 between Memorial Day and Labor Day. For the average family in the Buffalo area, the increase in gasoline prices could increase fuel costs by approximately $160 between Memorial Day and Labor Day.

METHODOLOGY

This analysis estimates the increased amount that consumers will spend on gasoline between Memorial Day and Labor Day due to rising gasoline costs. It is based upon (1) data from the American Automobile Association that tracks changes in fuel prices and (2) data from the

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1 *Price of Gas Hits 23-Year High*, Washington Post (May 15, 2004).

2 Energy Information Administration, *Short Term Energy Outlook* (June 8, 2004) (online at http://www.eia.doe.gov/emeu/steo/pub/contents.html).

3 *Greenspan Warns Dramatic Rise in Oil Price Will Dent U.S. Demand*, Financial Times (May 18, 2004).

Department of Transportation's Federal Highway Administration that tracks fuel usage and driving patterns at the state and local level. This data is used to estimate total gasoline usage for the state and for the Buffalo and Rochester areas. Total increased spending on gasoline is determined by multiplying the increase in gasoline prices by the estimated amount of gasoline that will be used.

FINDINGS

A. Gasoline Prices in the Buffalo and Rochester Areas

In recent months, gasoline prices have increased rapidly in New York and in the Rochester area. On June 14, 2004, the average price of a gallon of regular gas in New York was $2.19.[4] Compared to prices one year ago, this represents an increase of 59 cents per gallon.[5] Prices have increased by a similar amount in the Buffalo and Rochester areas. On June 14, 2004, the average price of a gallon of regular gasoline in the Buffalo area was $2.14, an increase of 58 cents per gallon compared to prices one year ago.[6] On June 14, 2004, the average price of a gallon of regular gasoline in the Rochester area was $2.15, an increase of 56 cents per gallon compared to prices one year ago.[7] Despite recent announcements by OPEC that the cartel would increase production, the U.S. Energy Information Administration has projected that gas prices (and the difference in gas prices from 2003 to 2004) will remain at high levels through the summer.[8]

B. The Impact of Increased Gasoline Prices in the Buffalo and Rochester Areas

In 2004, drivers in New York will purchase approximately six billion gallons of gasoline, an estimated 500 million gallons per month.[9] Assuming that gasoline prices remain 59 cents per gallon higher this summer than in 2003, increased gasoline prices would cost New York drivers an additional $295 million monthly. Over the three-month summer driving season from Memorial Day through Labor Day, the total increased cost for drivers in New York would be $885 million.

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4 AAA, *Daily Fuel Gauge Report* (May 2004).

5 *Id.*

6 *Id.*

7 *Id.*

8 Energy Information Administration, s*upra* note 2.

9 The latest statewide data available from the Federal Highway Administration is for 2002. FHWA, *Monthly Motor Fuel Use Reported by States* (Dec. 2002). This data shows that drivers in New York purchased 5.8 billion gallons of gasoline in 2002. According to the Energy Information Administration, gasoline use has increased by approximately 2% annually, or 4% between 2002 and 2004. A 4% increase in gasoline use in New York would result in New York drivers using six billion gallons of gasoline. Energy Information Administration, *supra* note 2.

An estimated 6% of all gasoline used in New York is used in the Buffalo area.[10] This means that Buffalo drivers purchase approximately 30 million gallons of gasoline monthly. Assuming that gas prices in the region remain 58 cents per gallon higher this summer than last year, increased gasoline prices will cost Buffalo drivers an additional $17 million monthly. Over the three-month summer driving season from Memorial Day through Labor Day, the total increased cost for Buffalo drivers would be approximately $52 million.

An estimated 4% of all gasoline used in New York is used in the Rochester area.[11] This means that Rochester drivers purchase approximately 21 million gallons of gasoline monthly. Assuming gas prices in the region remain 56 cents per gallon higher this summer than last year, increased gasoline prices will cost Rochester drivers an additional $12 million monthly. Over the three-month summer driving season from Memorial Day through Labor Day, the total increased cost for Rochester drivers would be approximately $35 million.

C. Individual Costs of Increased Gasoline Prices in Buffalo and Rochester

There are 10.9 million registered drivers in New York.[12] On a per-driver basis, the increased gasoline prices will cost the average driver in New York approximately $80 over the summer months. An average two-car family in New York will spend an additional $160 on gasoline during the summer driving season.

There are an estimated 640,000 drivers in the Buffalo area.[13] On a per-driver basis, the increased gasoline prices will cost the average driver in Buffalo over $80 over the summer months. An average two-car family in the Buffalo area will spend an additional $160 on gasoline during the summer driving season.

There are an estimated 375,000 drivers in the Rochester area.[14] On a per-driver basis, the increased gasoline prices will cost the average driver in Rochester over $90 over the summer months. An average two-car family in the Rochester area will spend an additional $180 on gasoline during the summer driving season.

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[10] Based on Federal Highway Administration estimates that 6% of all vehicle miles traveled in New York are in the Buffalo area. This analysis assumes that gasoline use is in direct proportion to vehicle miles traveled. Federal Highway Administration, *Highway Statistics, 2002* (2004).

[11] *Id.* Based on Federal Highway Administration estimates that 4% of all vehicle miles traveled in New York are in the Rochester area.

[12] *Id.*

[13] Federal Highway Administration data show that statewide, there are 570 registered drivers for every 1,000 individuals in New York. *Id.* Assuming this ratio applies to the population of the Buffalo area, which is 1.1 million, there would be 640,000 drivers in the Buffalo area.

[14] *Id.* Assuming the ratio of 570 drivers for every 1,000 individuals applies to the population of the Rochester area, which is 658,000 million, there would be 375,000 drivers in the Rochester area.

CONCLUSION

This analysis finds that increasing gasoline costs will have a significant impact on drivers in the Buffalo and Rochester areas. In the aggregate, increased gasoline prices could cost area drivers almost $90 million from Memorial Day to Labor Day, with the average two-car family in the area paying $160 to $180 extra for gasoline during this period.